

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: February 2, 2007

Bill Number: H.B. 3152

Authors: Agnew; Cobb-Hunter; Jennings; Littlejohn, *et. al.*

Committee Requesting Impact: House Ways & Means Committee

Bill Summary

A bill to amend the Code of Laws of South Carolina, 1976, by adding Article 11 to Chapter 6, Title 44 so as to enact the "Small Business Health Insurance Premium Assistance Act" and to establish the Small Business Health Insurance Premium Assistance Program within the Department of Health and Human Services to provide health insurance premium assistance to small businesses for employees who are at or under two hundred percent of the federal poverty level, to establish eligibility criteria for small businesses to participate in the program, to require eligible employees to contribute up to fifteen percent of the premium cost, to require the Department to place caps on the number of employees that may enroll in the program so that no more funds are expended than are available for this program from the Medicaid Match Fund, to provide that this program must be funded from a portion of an additional 1.6 cent per cigarette license tax, which must be adjusted annually based on the Consumer Price Index, and to direct the Department to apply for a Medicaid waiver to implement this program; to provide that the Department shall provide Medicaid coverage to children eighteen years of age and younger whose family incomes do not exceed two hundred percent of the federal poverty level; to create the Medicaid Match Fund into which a portion of the additional cigarette tax must be deposited; and to add Section 12-21-630 so as to provide for an additional 1.6 cent license tax on each cigarette to fund the Small Business Health Insurance Premium program and to provide for the distribution of the remaining portion of this additional tax to the Department of Health and Environmental Control and the Department of Agriculture.

REVENUE IMPACT ^{1/}

This bill is expected to increase business license tax revenue by an estimated \$113,740,000 in FY2007-08. Of this amount, \$3,000,000 must be credited to the Department of Health and Environmental Control, \$2,000,000 must be credited to the S.C. Department of Agriculture, and the balance of \$108,740,000 is to be credited to the Medicaid Match Fund. This bill would also reduce General Fund business license tax revenue by an estimated \$2,328,410 in FY2007-08.

Explanation

This bill would add Section 12-21-630 allowing an additional 1.6 cents to be levied on each cigarette made of tobacco or any substitute for tobacco pursuant to Section 12-21-620(1). This bill would create a separate and distinct fund from the General Fund and all other funds styled the Medicaid Match Fund to receive revenue collected from the surcharge. Revenue collected from the cigarette surcharge revenue must be deposited in the Medicaid Match Fund, and used by the Department of Health and Human Services as state matching funds for federal Medicaid funding for the Health Insurance Premium Assistance Program provided for in Section 44-6-1410, and for the expansion of Medicaid coverage pursuant to Section 44-6-1420. Any funds, including interest on the Medicaid Match Fund, not expended at the end of each fiscal year may be carried forward to the succeeding fiscal year and must be used for the same purposes. According to data provided by the Department of Revenue and the Comptroller General, the state collected over \$32,000,000 in business license tax revenue in FY2005-06. Eighty-six percent of business license tax revenue is attributed to cigarette purchases, and the remaining fourteen percent of business license tax revenue is attributed to other

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tobacco products, such as, cigars, chewing tobacco, snuff, etc... An additional 1.6 cents on each cigarette equates to a 32-cent surcharge on each pack of 20 cigarettes, raising the state excise tax to 39 cents per pack of 20 cigarettes. Based upon research of states that have increased cigarette tax rates, a 32-cent surcharge on each pack of 20 cigarettes would reduce demand by 8.4 percent. Taking into account the demand reduction, the higher surcharge is expected to generate an additional estimated \$113,740,000 of business license tax revenue in FY2007-08. Since the demand for cigarettes will decline as the excise tax rises, this bill would also reduce General Fund business license tax revenue by an estimated \$2,328,410 in FY2007-08. Of the additional estimated \$113,740,000 of business license tax revenue, \$3,000,000 must be credited to the Department of Health and Environmental Control to be divided equally between maternal and child health and smoking cessation and youth smoking prevention programs, and \$2,000,000 must be credited to the South Carolina Department of Agriculture for programs to market South Carolina grown agricultural products. The remaining funds must be deposited in to the Medicaid March Fund. Effective July 1, 2007, the additional license tax on cigarettes would be adjusted by the annual increase in the Consumer Price Index and each year thereafter.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.